

Investment Section

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PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA

Report on Investment Activity



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September 1, 2005

Board of Trustees
State of Indiana Public Employees' Retirement Fund
143 West Market Street
Indianapolis, IN 46204

Dear Trustees:

Mercer Investment Consulting (Mercer IC) is pleased to present the State of Indiana Consolidated Retirement Investment Fund (CRIF) results for the fiscal year ended June 30, 2005.

As of June 30, 2005, the CRIF had a market value of \$12.4 billion, a \$1.1 billion increase since June 30, 2004. The increase in assets was primarily attributable to the investment appreciation experienced over the one-year period. During the previous twelve months:

- After finishing 2004 on a strong note, the capital markets' performance was subdued in 2005, as investors worried over rising oil prices, increasing inflation, the strength of the economy and higher interest rates. Since June 2004, the Federal Open Market Committee (FOMC) has raised short-term interest rates nine times, pushing the Fed Funds rate to 3.25% as of June 30, 2005. During the same period, long-term rates continued to decline, causing a flattening of the yield curve.
- In general, small capitalization stocks led large capitalization issues over the trailing twelve months. In terms of style, value stocks beat their growth-oriented counterparts across the capitalization spectrum.
- Amidst the overall uncertainty and volatility, domestic equity markets fared well. The S&P 500 Index, an index of domestic large capitalization stocks, advanced 6.3% during the trailing one-year period, while smaller capitalization stocks, as measured by the Russell 2000 Index increased 9.5%. As a result of higher energy prices, the commodity-driven sectors of the market were the top performing areas, with energy and utilities posting impressive double-digit returns for the trailing one-year period.
- Developed international equity markets continued to lead their domestic counterparts during the period, posting a 14.1% return, as measured by the MSCI EAFE (Europe, Australasia, and Far East) Index. Emerging markets continued their rally, increasing 34.9%, as measured by the MSCI Emerging Markets Index.
- Fixed income markets, as measured by the Lehman Brothers Aggregate Index returned 6.8% for the twelve month period. In general, higher quality issues and longer-term bonds led the market.

Within this environment, the CRIF advanced 9.8% during the one-year period ending June 30, 2005, exceeding the 9.3% Target Reference Index return. Annual performance was enhanced by solid results delivered by both the domestic and international segments during the fourth quarter of 2004 and the second quarter of 2005. The CRIF's returns remain strong over the trailing threeand five-year periods, surpassing the Index.

Report on Investment Activity (continued)

The CRIF's domestic equity managers increased 8.2% (collectively) during the trailing year, marginally outpacing the 8.1% return of the Russell 3000 Index. The Fund's small cap equity managers were the biggest drivers of outperformance, as they all exceeded their respective bogeys by wide margins. Longer term performance continues to lead the benchmark.

The Fund's international equity segment posted a 20.0% return for the trailing twelve months, beating the MSCI ACWI Ex-US Index by 3.0%. The global equity portion returned 10.6%, trailing the MSCI ACWI Index by 1.1%. Over the trailing three-year period, the international and global equity segments struggled versus their respective market benchmarks.

The fixed income portion of the Fund returned 7.7% over the trailing one-year period, surpassing the 6.8% return of the Lehman Brothers Aggregate Index. Relative outperformance was largely attributable to both the allocation and the solid investment results experienced by the active core opportunistic managers. Longer term returns remain ahead of the Index.

Mercer IC is pleased with the Fund's investment results over the trailing one-year period and supports the continued efforts to enhance the overall structure and performance.

Sincerely,



Douglas J. Kryscio, CFA
Principal

PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA

Outline of Investment Policies

The Board of Trustees serves as the ultimate fiduciaries of the State of Indiana Public Employees' Retirement Fund (the Fund). The five members are appointed by the governor. One must be a member of the fund with at least 10 years of creditable service. One must be either a member or a retired member of the Fund; a member of a collective bargaining unit of state employees or an Indiana resident and officer of a local, national or international labor union representing state employees. Not more than three of the trustees may be of the same political affiliation. The Board appoints the executive director of the fund for approval by the governor.

Trustees operate under the prudent investor standard in overseeing investment activities, acting "with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims."

PERF was prohibited from investing in equities prior to May 1997. At that time, the Board began re-balancing the portfolio by investing in diversified equity asset classes. As stated in the Notes to the Financial Section, the Consolidated Retirement Investment Fund (CRIF) includes all investments and transactions of the pension funds. The non-pension funds administered by PERF are excluded from the CRIF. A breakdown of each plan's share of the CRIF and the asset allocation of the total portfolio is provided in this section.

The Board's Statement of Investment Policy and corresponding Addenda govern the activities for all assets under the Board's control. The purposes are summarized below:

- Set forth appropriate and prudent investment policies in consideration of the needs of the Fund, legal requirements applicable to the Fund and to direct investment of the Fund's assets.
- Establish criteria against which the investment managers are to be measured.
- Communicate the investment policies, objectives, guidelines and performance criteria of the Board to the Staff, Investment Managers, Consultants and all other interested parties.
- Serve as a review document to guide the ongoing oversight of the investment of the Fund.

- Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investment of the Fund solely in the interests of members and Fund beneficiaries.

Maintenance of funding adequate to provide for the payments of the plans' actuarially determined liabilities over time, at a reasonable cost to the members, the employers and the taxpayers of the state, is of primary consideration. In order to determine the appropriate asset allocation and diversification of the Fund to meet the objectives described above, the Board periodically conducts asset/liability modeling studies.

The investment portfolio includes long-term commitments to the following asset classes: domestic equity, domestic fixed income, global equity and international equity. The international equity allocation started during fiscal year 2001. In addition, the Board established a strategic allocation to alternative investments. Expectations are that this allocation will be funded over time.

The Board employs professional investment managers selected through a thorough manager due diligence search process. This incorporates the State of Indiana's statutory requirements, supported by staff and consultant coordination and analysis. It is the Board's intent that the selection process be open to all qualified organizations wishing to participate. Investment managers are expected to comply with stated investment guidelines detailed in the Statement of Investment Policy. Manager performance is measured against applicable market index results, as well as a comparable peer group of managers.

The Guaranteed Fund is the unique, original self-directed investment option for the Annuity Savings Account program within the PERF plan. It provides a guarantee of the value of an individual's contributions to the Fund and a guarantee of the value of any interest credited on contributions. As set by the PERF Board, the actual investments of the Guaranteed Fund are the same as the general PERF portfolio. The PERF Board annually establishes the interest-crediting rate for the Guaranteed Fund. The interest-crediting rate for the Guaranteed Fund during the last 10 years is included in the Investment Highlights of this section on page 61.

2005 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Investment Highlights

Investment Summary

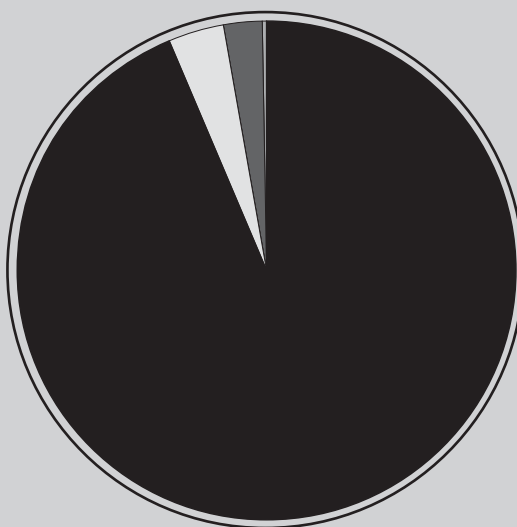
June 30, 2005
(in millions)

Consolidated Retirement Investment Fund (CRIF)	\$ 12,435.0
PERF Annuity Savings Accounts ⁽¹⁾	477.0
Legislators Defined Contribution Accounts ⁽²⁾	2.0
Investment Trust Fund - Pension Relief Fund	357.0
Special Death Benefit Accounts	8.0
	<hr/>
Total Investments, Cash and Cash Equivalents ⁽³⁾	\$ 13,279.0

(1) Balances directed outside the Guaranteed Fund.

(2) Balances directed outside the Legislators CRIF Option.

(3) Includes investment income receivable, receivable from investment sales, and investment purchases payable.



■	Consolidated Retirement Investment Fund (CRIF) 93.64%
■	PERF Annuity Savings Accounts 3.59%
□	Legislators Defined Contribution Accounts 0.02%
■	Investment Trust Fund - Pension Relief Fund 2.69%
■	Special Death Benefit Accounts 0.06%

PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA

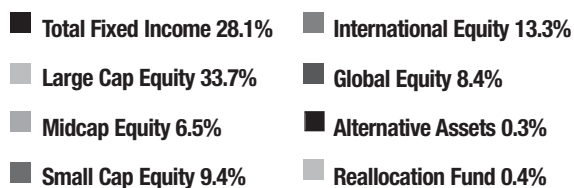
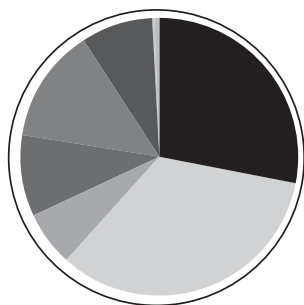
Investment Highlights (continued)

Consolidated Retirement Investment Fund (CRIF)

Asset Allocation Summary

(in percent)

June 30, 2005



Consolidated Retirement Investment Fund (CRIF)

Asset Allocation Summary

(in percent)

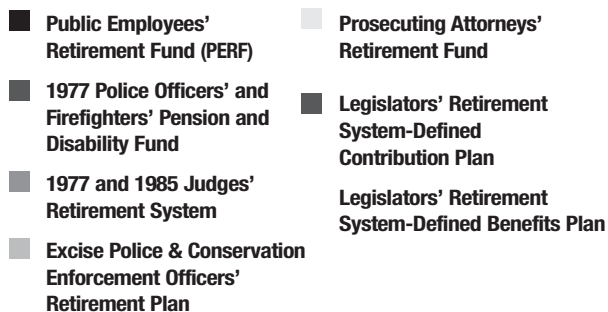
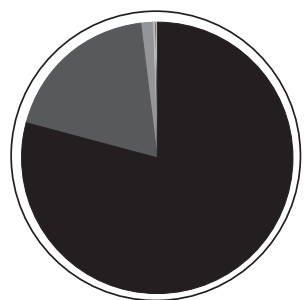
June 30, 2005

	June 2004	June 2005
Total Equities	70.5 %	71.2 %
Total Fixed Income	28.6	28.1
Alternative Investments	0.1	0.3
Reallocation Fund*	0.8	0.4
Total Fund	100.0	100.0

*The Reallocation Fund consists of residual cash within the Fund.

Retirement Plans in the Consolidated Fund (CRIF)

June 30, 2005



Retirement Plans in the Consolidated Fund (CRIF)

June 30, 2005

	Assets (\$ millions)	Percent of Consolidated Fund
Public Employees' Retirement Fund	\$ 9,831.7	79.1 %
1977 Police Officers' and Firefighters' Pension and Disability Fund	2,351.5	18.9
1977 and 1985 Judges' Retirement System	171.3	1.4
Excise Police & Conservation Enforcement Officers' Retirement Plan	47.3	0.4
Legislators' Retirement System-Defined Contribution Plan	10.6	0.1
Legislators' Retirement System-Defined Benefit Plan	4.9	0.0
Prosecuting Attorneys' Retirement Fund	19.0	0.2
Total Consolidated Fund ⁽¹⁾	12,435.3	100.0

⁽¹⁾ Numbers may not sum correctly due to rounding.

2005 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Investment Highlights (continued)

Comparative Investment Results For Periods Ended June 30, 2005 (Percent Return)

	1 YR	3 YR	5 YR
Total CRIF Fund	9.8 %	10.2 %	4.5 %
vs. Mercer Public Funds Universe median*	10.1	10.3	4.0
Target Reference Index**	9.3	9.3	3.1
Total CRIF Domestic Equity	82.0	11.0	0.8
vs. Mercer Equity Universe median	10.0	11.3	4.5
Russell 3000 Index	8.1	9.5	(1.4)
Total CRIF Global Equity	10.6	9.1	N/A
vs. Mercer Global Equity Universe median	11.2	11.0	(0.5)
MSCI ACWI Free Index	11.7	11.2	(1.2)
Total CRIF International Equity	20.0	13.0	N/A
vs. Mercer International Equity Universe median	14.8	13.0	1.3
ACWI Ex-US Index	17.0	14.1	0.8
MSCI EAFE Index	14.1	12.5	(0.2)
Total CRIF Fixed Income	7.7	6.6	7.8
vs. Mercer Core Investment Grade Universe median	7.0	6.1	7.7
LB Aggregate Index	6.8	5.8	7.4

CRIF= Consolidated Retirement Investment Fund

* Universe of Public Funds

** Composed of passive indices for each asset class held at the target allocation:

Ten-Year Total Pension Investment Rates of Return (dollars in millions)

	Market Value	Actuarial Basis	Rate of Return	Actuarial Assumed Rate
2005	\$ 12,435.0	N/A	9.8 %	7.25 %
2004	11,338.2	N/A	16.30	7.25
2003	9,704.1	N/A	4.70	7.25
2002	9,627.8	N/A	(4.51)	7.25
2001	9,883.0	5.77 %	(2.51)	7.25
2000	9,315.1	8.53	6.74	7.25
1999	8,492.6	9.52	11.25	7.25
1998	6,346.2	9.34	13.41	7.25
1997	5,830.5	8.57	8.30	7.25
1996	5,513.9	7.96	4.68	7.25

2005 Investment Summary

(dollars in thousands)

	Beginning Account Balance	Net Contributions	Income & Capital Gains	Ending Account Balance	Percentage of Total Fair Value
Domestic Equity	\$ 5,665,300	\$ 36,218	\$ 454,939	\$ 6,156,457	49.51 %
Global Equity	949,300	9,740	90,776	1,049,816	8.44
International Equity	1,380,500	3,356	271,592	1,655,448	13.31
Total Equity	7,995,100	49,314	817,307	8,861,721	71.26
Alternative Investments	15,700	10,250	9,678	35,628	0.29
Fixed Income*	3,327,300	(37,605)	248,268	3,537,963	28.45
Total CRIF**	11,338,100	21,959	1,075,253	12,435,312	100.00

* Includes Reallocation Account for cash flow and allocation purposes.

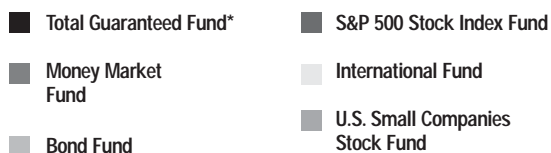
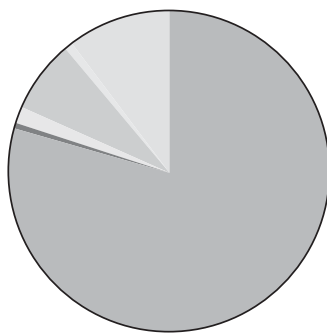
** Numbers may not sum due to rounding.

PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA

Investment Highlights (continued)

PERF Annuity Savings Account Investment Highlights by Dollar Amount

June 30, 2005



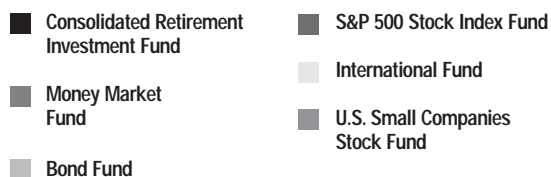
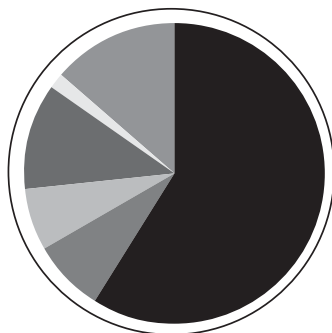
Investment Highlights by Dollar Amount (\$ millions)

	Assets	Percent of Self-Directed Investments
Total Guaranteed Fund	\$ 1,863.8	79.7 %
Money Market Fund	12.0	0.5
Bond Fund	38.0	1.6
S&P 500 Stock Index Fund	170.0	7.3
U.S. Small Companies Stock Fund	238.0	10.2
International Equity IndexFund	19.0	0.8
Total Assets¹	2,340.8	100.0

¹Numbers may not sum due to rounding.

Legislators' Retirement Defined Contribution Plan Investment Highlights by Dollar Amount

June 30, 2005



Investment Highlights by Dollar Amount (\$ thousands)

	Assets	Percent of Self-Directed Investments
Consolidated Retirement Investment Fund	\$ 10,570	59.1 %
Money Market Fund	1,390	7.8
Bond Fund	1,174	6.6
S&P 500 Stock Index Fund	2,063	11.5
U.S. Small Companies Stock Fund	2,398	13.4
International Equity IndexFund	292	1.6
Total Assets¹	17,887	100.0

¹Numbers may not sum due to rounding.

2005 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Investment Highlights (continued)

Self-Directed Investment Options PERF Annuity Savings Account Legislators' Defined Contribution Plan

Annualized Rate of Return by Investment Option

For Periods Ended June 30, 2005

	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Consolidated Retirement Investment Fund ¹	9.8 %	10.2 %	4.5 %	8.0 %
Money Market Fund	2.2	1.6	2.7	5.0
Bond Fund	6.9	5.8	7.5	8.2
S&P 500 Stock Index Fund	6.4	8.3	(2.4)	3.9
U.S. Small Companies Stock Fund	12.4	18.2	18.8	19.3
International Equity Index Fund ²	13.6	12.4	N/A	10.7

¹ The Consolidated Retirement Investment option did not become available to members (Legislators' Defined Contribution Plan) until July 1, 2000.

² The International Equity Index Fund did not become available to PERF members until January 1, 2002.

PERF Guaranteed Fund

Interest Crediting Rates for Past 10 Years

Year	Interest Crediting Rate
2005	6.25%
2004	7.25
2003*	8.25/7.75
2002	8.25
2001	8.25
2000	8.25
1999	8.25
1998	8.25
1997	9.00
1996	8.40

* For the fiscal year ended June 30, 2003, the interest crediting rate of the Guaranteed Fund is credited based on an annual rate of 8.25% for the first quarter and 7.75% for the remaining 3 quarters.

PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA

List of Largest Assets Held

Largest Equity Holdings

Description	Shares	Market Value
General Elec Co	3,249,448	\$112,593,359
Exxon Mobil Corp	1,655,636	95,149,375
Microsoft Corp.	3,669,188	91,142,617
Pfizer Inc	2,541,967	70,107,453
Intel Corp	2,503,632	65,244,656
Johnson & Johnson	898,117	58,377,625
Bank Amer Corp	1,222,349	55,751,340
American Int'l Group	918,988	53,393,223
Cisco Sys Inc.	2,748,962	52,532,656
Wal Mart Stores Inc	1,011,096	48,734,836
Genentech Inc.	606,442	48,685,145
Altria Group Inc	738,297	47,738,254
Verizon Communication	1,380,119	47,683,117
Google Inc.	157,870	46,437,410
Dell Inc.	1,105,136	43,663,922

Largest Bond Holdings

Description	Coupon Rate	Maturity Date	Par Value	Market Value
USA Treasury Bond Index (TIPS)	3.88 %	04/15/2029	\$ 67,783,000	\$ 112,746,477
USA Treasury Bond (TIPS)	3.63	04/15/2028	62,140,000	100,434,156
US Treasury Note (TIPS)	3.00	07/15/2012	83,980,000	99,810,341
USA Treasury Note (TIPS)	1.88	07/15/2013	84,450,000	91,369,332
US Treasury Sec	2.00	01/15/2014	74,610,000	80,919,718
USA Treasury Note (TIPS)	3.63	01/15/2008	61,450,000	78,307,321
US Treasury Note (TIPS)	0.88	04/15/2010	76,135,000	76,258,789
USA Treasury Bond (BDS)	2.38	01/15/2025	54,555,000	61,638,472
USA Treasury Note	3.50	01/15/2011	49,450,000	61,265,361
US Treasury Note (TIPS)	3.38	01/15/2007	43,105,000	54,613,539

Schedule of Commission Fees

Top 10 Brokers' Total Commission Fees	
Broker	Commission Fee
Investment Technology Group Inc.	\$ 772,688.17
UBS Warburg LLC	763,674.25
Liquidnet INC	683,399.24
Goldman Sachs & Co.	635,360.76
Credit Suisse First Boston LLC	590,177.60
Citigroup Global Markets Limited	560,063.43
Morgan Stanley & Co. Inc.	558,549.07
Deutsche Bank Securities, Inc.	541,792.08
Lehman Bros, Inc.	533,936.59
Merrill Lynch, Pierce, Fenner & Smith	309,567.94
Total of Top Ten Commission Fees	\$ 5,949,209.13
Other Brokers	\$ 6,053,785.00
Total	\$ 12,002,994.13

PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA

Investment Professionals

CUSTODIAN

JP Morgan Chase
3 JP Morgan Chase MetroTech Center, Fl 5
Brooklyn, NY 11245

CONSULTANTS

Burnley Associates
300 East 5th Avenue, Suite 470
Naperville, IL 60563

Mercer Investment Consulting, Inc.
10 South Wacker Drive, Suite 1500
Chicago, IL 60606-7485

Strategic Investment Solutions
333 Bush Street, Suite 200
San Francisco, CA 94104

CRIF

Domestic Equity

Barclays Global Investors
Large Cap Equity - Small/Mid Cap Equity
45 Fremont Street
San Francisco, CA 94105

Brandes Investment Partners, L.P.
Mid Cap Equity
11988 El Camino Real, Suite 500
P.O. Box 919048
San Diego, CA 92191-9048

Hotchkis & Wiley Capital Management
Large Cap Equity
725 S. Figueroa Street, 39th Floor
Los Angeles, CA 90017

Jacobs Levy Equity Management, Inc.
Small Cap Equity
100 Campus Drive
P.O. Box 650
Florham Park, NJ 07932

Numeric Investors, L.P.
Small Cap Equity
One Memorial Drive, 9th Floor
Cambridge, MA 02142

Osprey Partners Invst. Mgt., LLC
Large Cap Equity - Small Cap Equity
Shrewsbury Executive Center II
1040 Broad Street
Shrewsbury, NJ 07702

Sands Capital Management, Inc.
Large Cap Equity
1001 19th Street North, Suite 1450
Arlington, VA 22209

Times Square Capital Management
Small Cap Equity
Four Times Square, 25th Floor
New York, NY 10036-9998

Domestic Equity (cont.)

Turner Investment Partners
Large Cap Equity
1235 Westlakes Drive, Suite 350
Berwyn, PA 19312

Wells Capital Management
Mid Cap Equity
450 East 96th Street, Suite 210
Indianapolis, IN 46240

Global Equity

Brandes Investment Partners, L.P.
11988 El Camino Real, Suite 500
P.O. Box 919048
San Diego, CA 92191-9048

Capital Guardian Trust Company
1 Market Stewart Tower, Suite 1800
San Francisco, CA 94105-1409

Invesco
1360 Peachtree St., N.E., Suite 100
One Midtown Plaza
Atlanta, GA 30309

International Equity

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105

Ballie Gifford & Company
1 Greenside Row
Edinburgh EH1 3AN
Scotland, United Kingdom

Mondrian Investment Partners
80 Cheapside, 3rd Floor
London EC2V 6EE
United Kingdom

Fixed Income

BlackRock Financial Management, Inc.
Fixed Income Core Opportunistic
40 East 52nd Street, 6th Floor
New York, NY 10022

Hughes Capital Management, Inc.
Fixed Income Government/Credit
315 Cameron Street
Alexandria, VA 22314

Lehman Brothers Asset Management, LLC
Fixed Income Core Enhanced – Enhanced TIPS
200 South Wacker Drive
Chicago, IL 60606

Northern Trust Global Investments
Fixed Income Core Index – Core TIPS
50 South LaSalle Street
M4 Quant Management
Chicago, IL 60675

Reams Asset Management Co., LLC
Fixed Income Core Active
227 Washington Street, P.O. Box 727
Columbus, IN 47201-0727

Fixed Income (cont.)

Seix Investment Advisors, Inc.
Fixed Income Core Opportunistic
300 Tice Boulevard
Woodcliff Lake, NJ 07677-7633

Taplin, Canida & Habacht
Fixed Income Core Active
1001 Brickell Bay Drive, Suite 2100
Miami, FL 33131

Western Asset Global Management, Inc.
Fixed Income Core Opportunistic – Active TIPS
117 East Colorado Boulevard
Pasadena, CA 91105

Alternative Investments

Arch Venture Partners
8725 West Higgins Road, Suite 290
Chicago, IL 60631

Lindsay, Goldberg & Bessemer, L.P.
630 Fifth Ave, 30th Floor
New York, NY 10111

House Investments L.P.
10401 North Meridian Street, Suite 275
Indianapolis, IN 46290-1090

Merit Capital Partners
303 West Madison Avenue, Suite 2100
Chicago, IL 60606

CSFB Private Equity Group
Indiana Future Fund I
11 Madison Avenue, 16th Floor
New York, NY 10010

DEFINED CONTRIBUTION PLAN

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105

Dimensional Fund Advisors, Inc.
1299 Ocean Avenue
Santa Monica, CA 90401

Northern Trust Global Investments
50 South LaSalle Street
M4 Quant Management
Chicago, IL 60675

Royce & Associates, LLC
1414 Avenue of the Americas, Suite 900
New York, NY 10019

JP Morgan Chase
3 JP Morgan Chase MetroTech Center, Fl 5
Brooklyn, NY 11245

POLICE AND FIRE PENSION RELIEF FUND

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105